



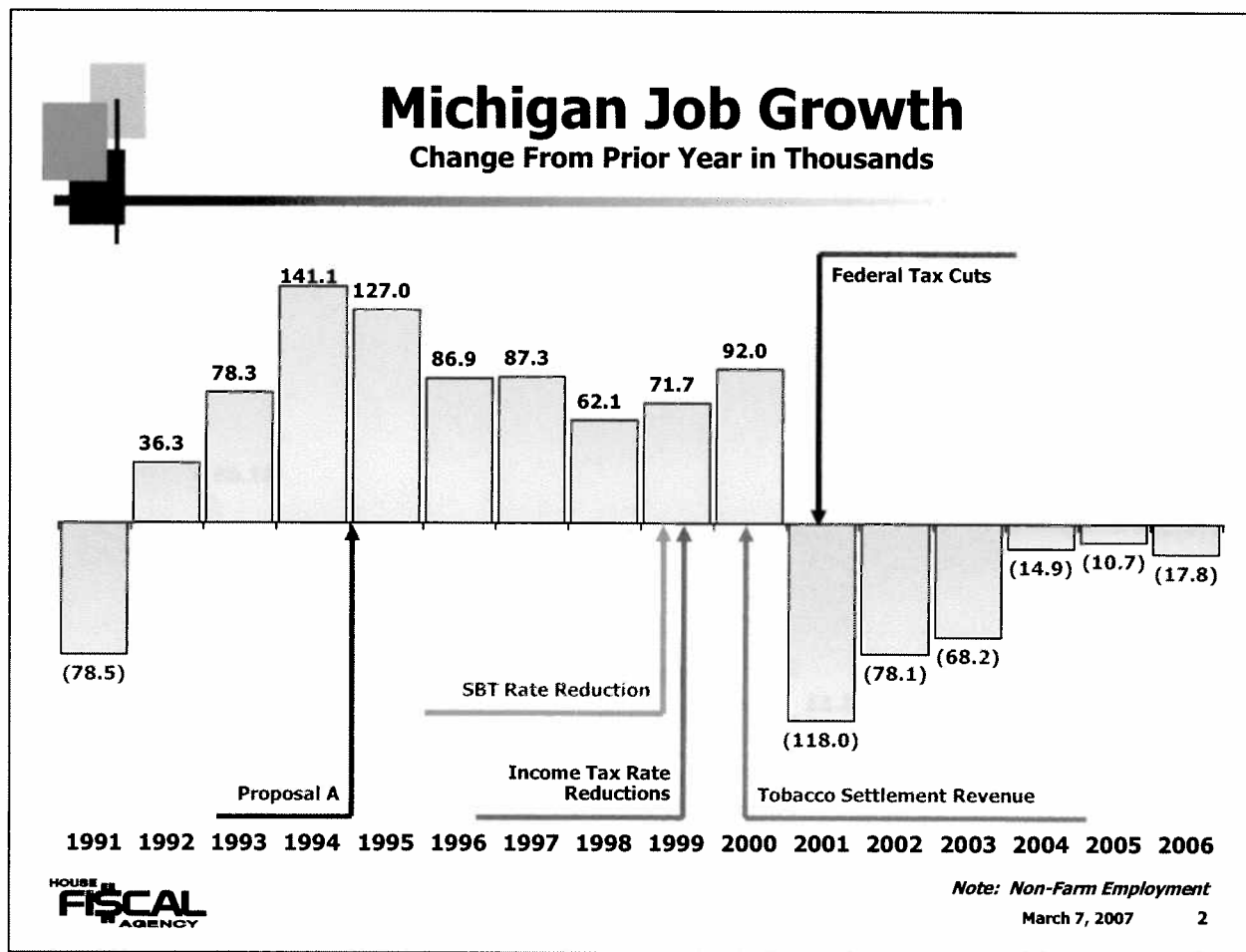
Michigan Revenue and Economics

**House Appropriations Committee
House Tax Policy Committee
Joint Meeting**



Mitchell E. Bean, Director

March 7, 2007



Before Proposal A:

- ◆ Economy expanding and creating jobs
- ◆ Decade's strongest annual job growth
- ◆ State revenue growing
- ◆ Extra revenue made Proposal A possible

1990s state tax cuts:

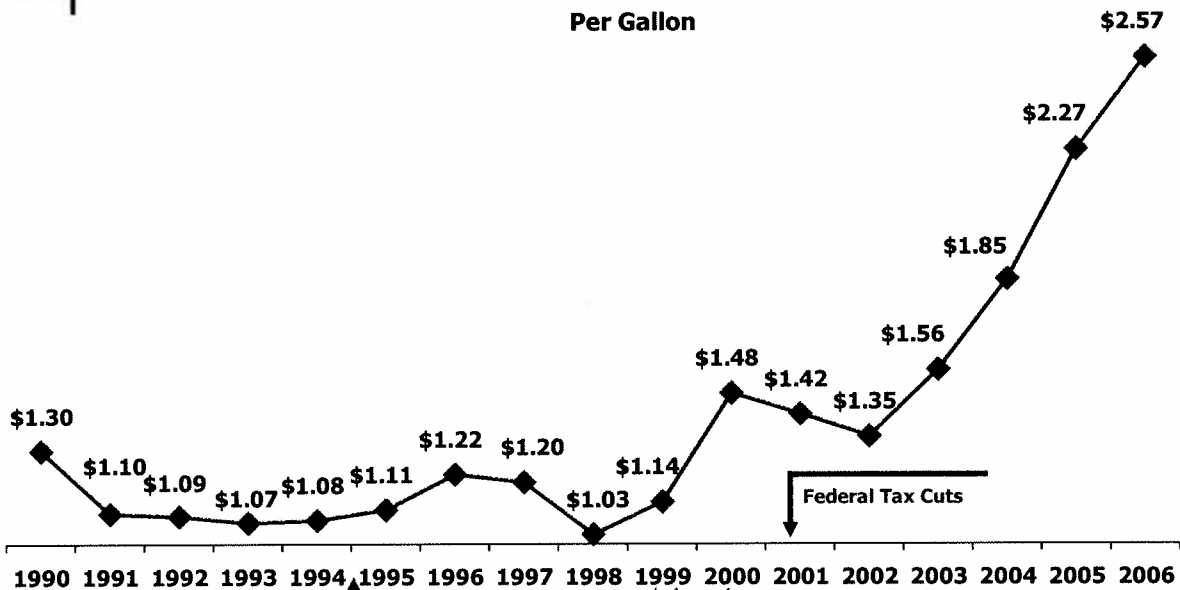
- ◆ Enabled by
 - ◆ Strong job growth
 - ◆ Strong revenue growth
 - ◆ New revenue source
- ◆ No significant cut to state services

Federal tax cuts (2001 through 2004):

- ◆ Bigger than any cuts the state has done
- ◆ Had no negative impact on state services
- ◆ Did not lead to job growth

U.S. Gasoline Prices

Per Gallon



HOUSE
FISCAL
AGENCY

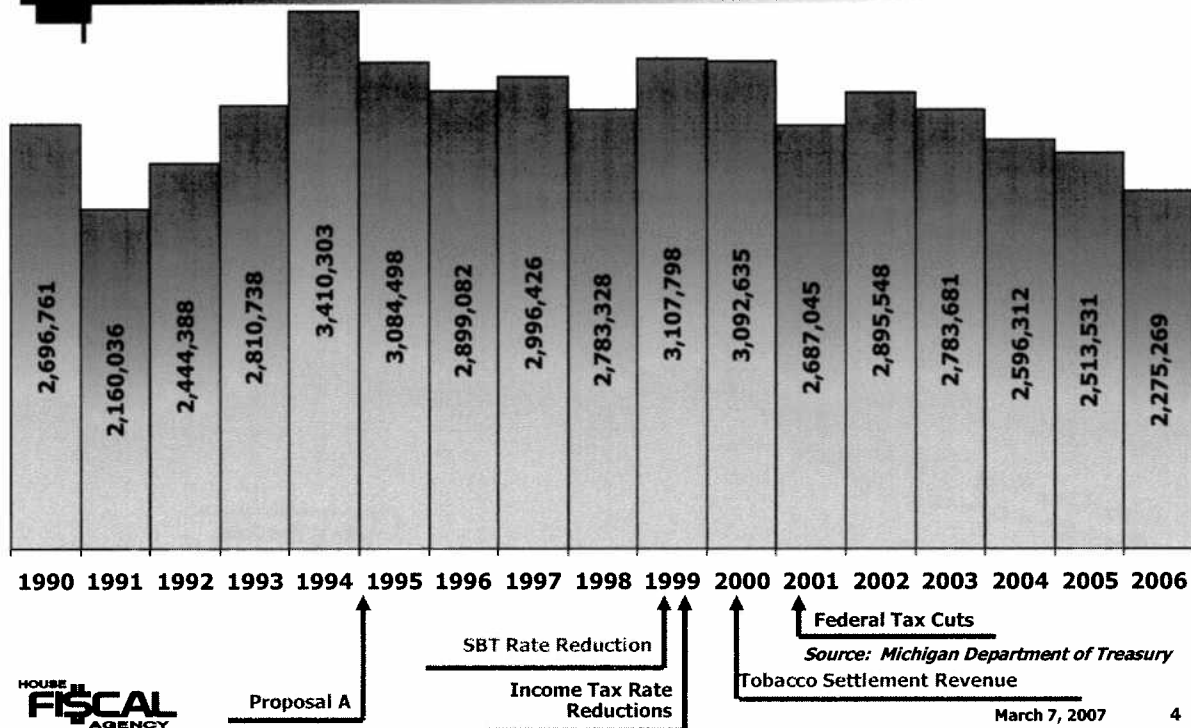
Proposal A

SBT Rate Reduction
Income Tax Rate
Reductions

Source: U.S. Department of Energy
Tobacco Settlement Revenue

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Michigan Vehicle Production



1990s:

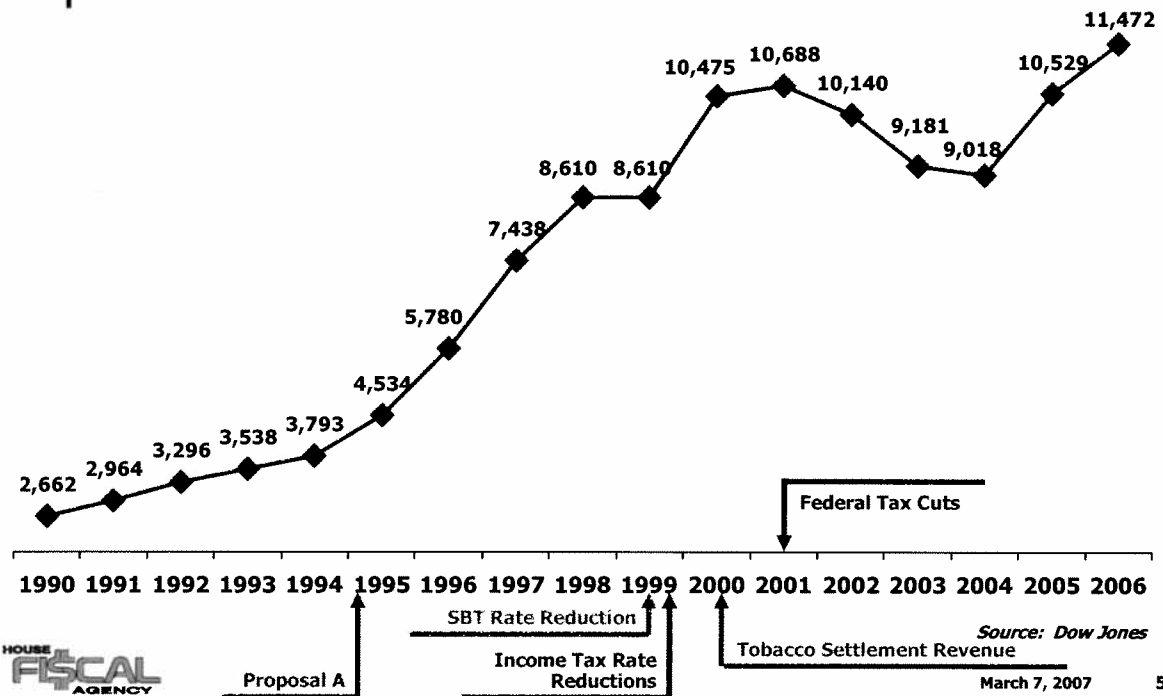
- ◆ Domestic auto manufacturing
 - ◆ Enjoyed a competitive advantage (SUVs, Mini-vans, trucks)
 - ◆ Low gas prices led to increased demand
 - ◆ Increased its demand for skilled labor

2000 to 2006:

- ◆ Gasoline prices ↑ from \$1.48 to \$2.57
- ◆ Michigan auto manufacturing production ↓ from 3.1 million units to 2.3 million units

Total vehicle sales driven by national economy—not state tax policy

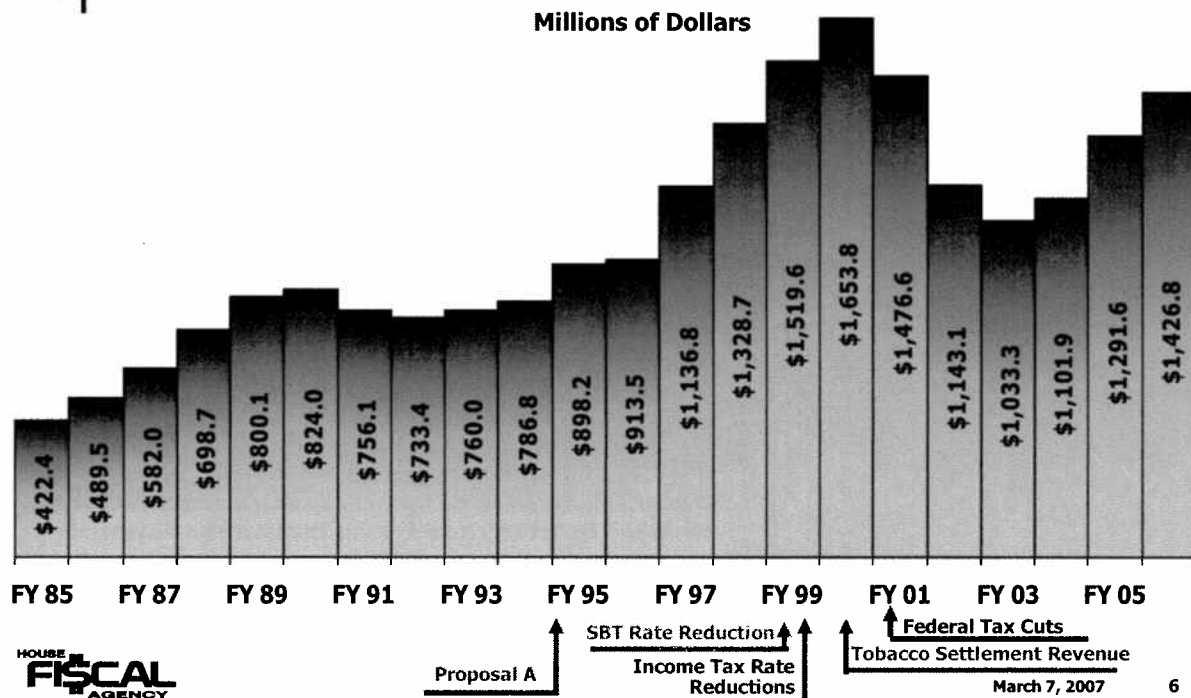
Dow Jones Industrial Average



Strong income tax growth due largely to capital gains

Tech bubble burst in 2001; income tax revenue declined

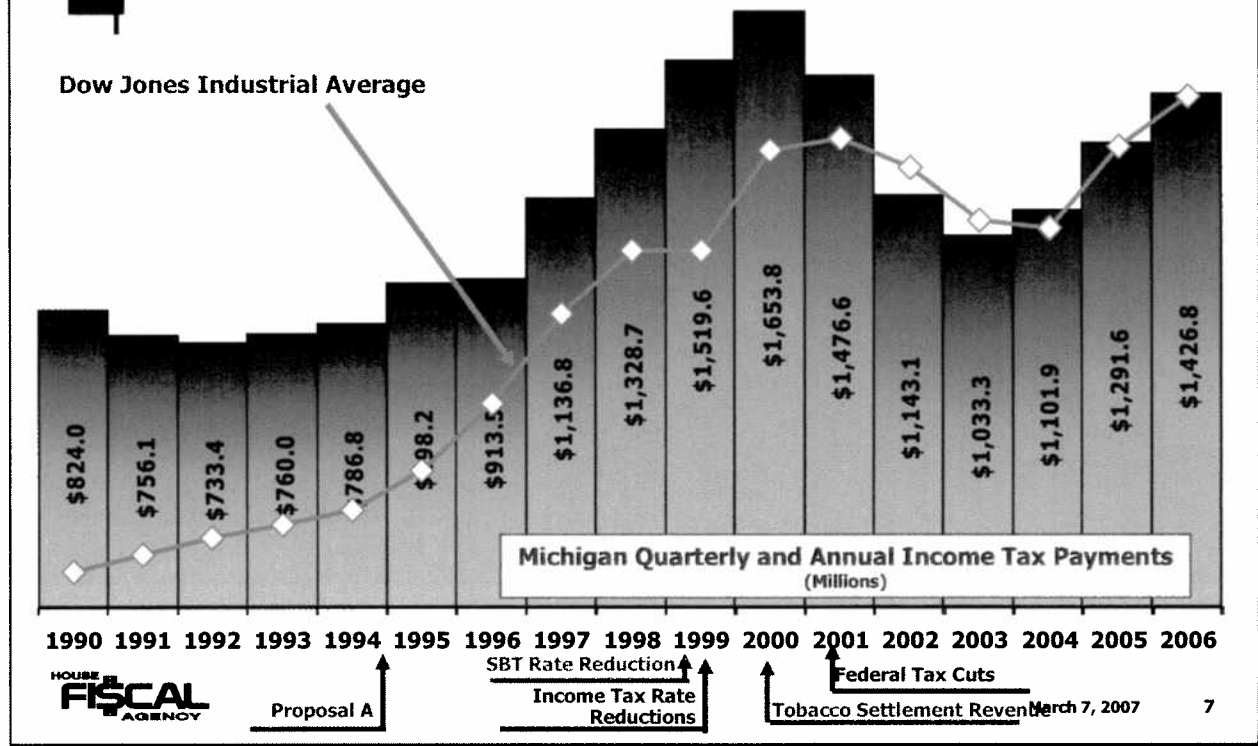
Michigan Quarterly and Annual Income Tax Payments



Income tax collections increased from \$786.8 million in 1994 to \$1,519.6 million in 1999

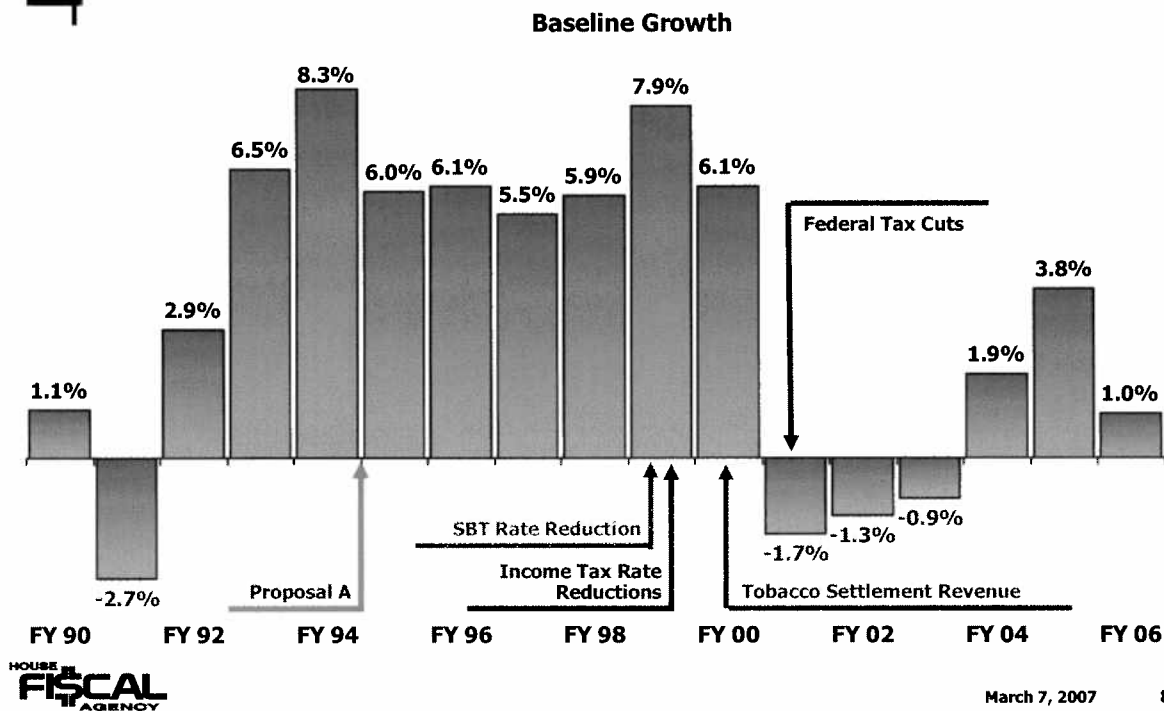
Approximately \$500 million per year of increase from capital gains

Dow Jones and MI Income Tax Payments



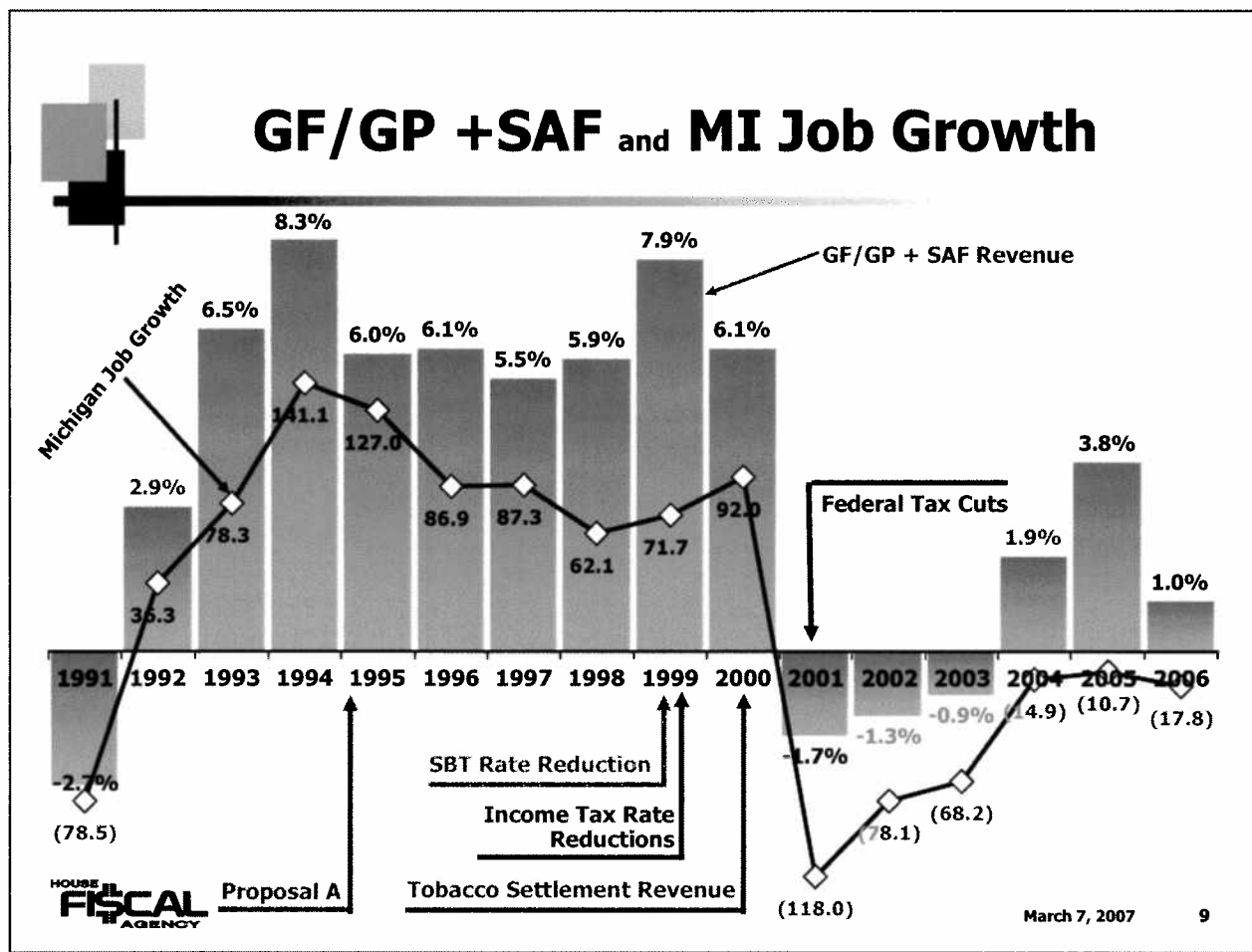
Strong stock market had an important impact on revenue growth

GF/GP + School Aid Fund Revenue



Revenue growth:

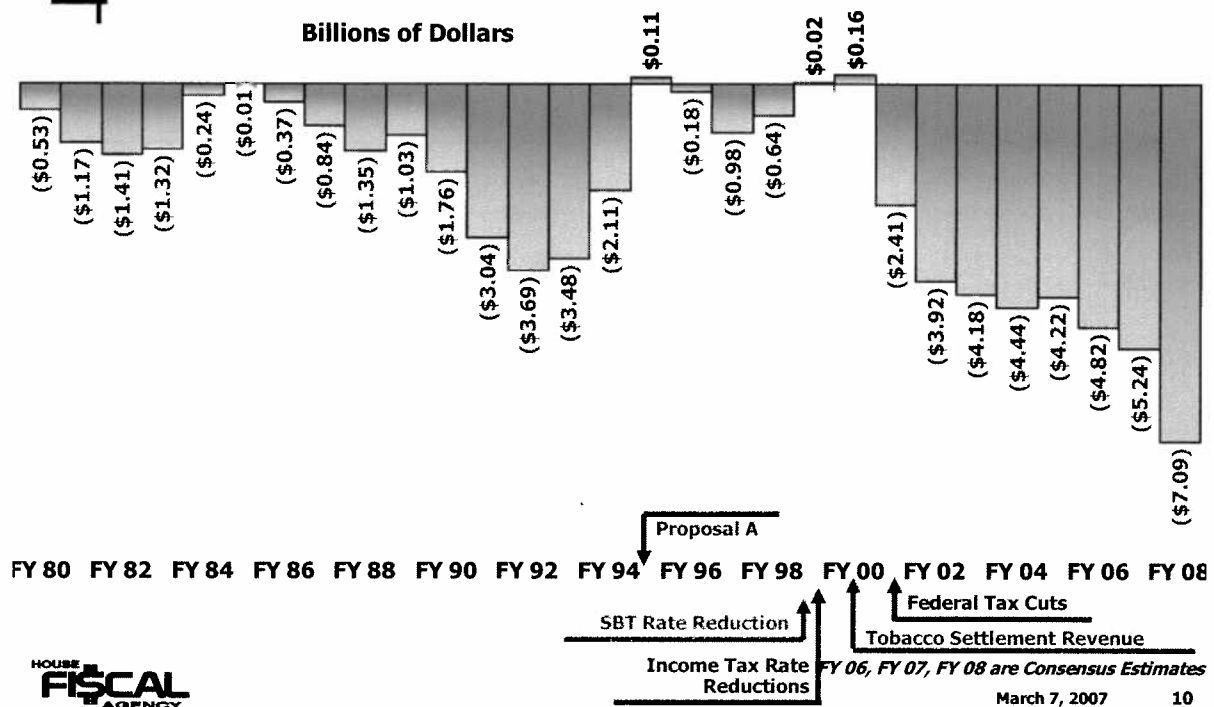
- ◆ Strong coming out of recession (early 1990s)
- ◆ Slow by comparison since FY 99-00



Important changes in state tax policy were

- ◆ Preceded by strong revenue growth and
- ◆ The potential for violating state revenue limit

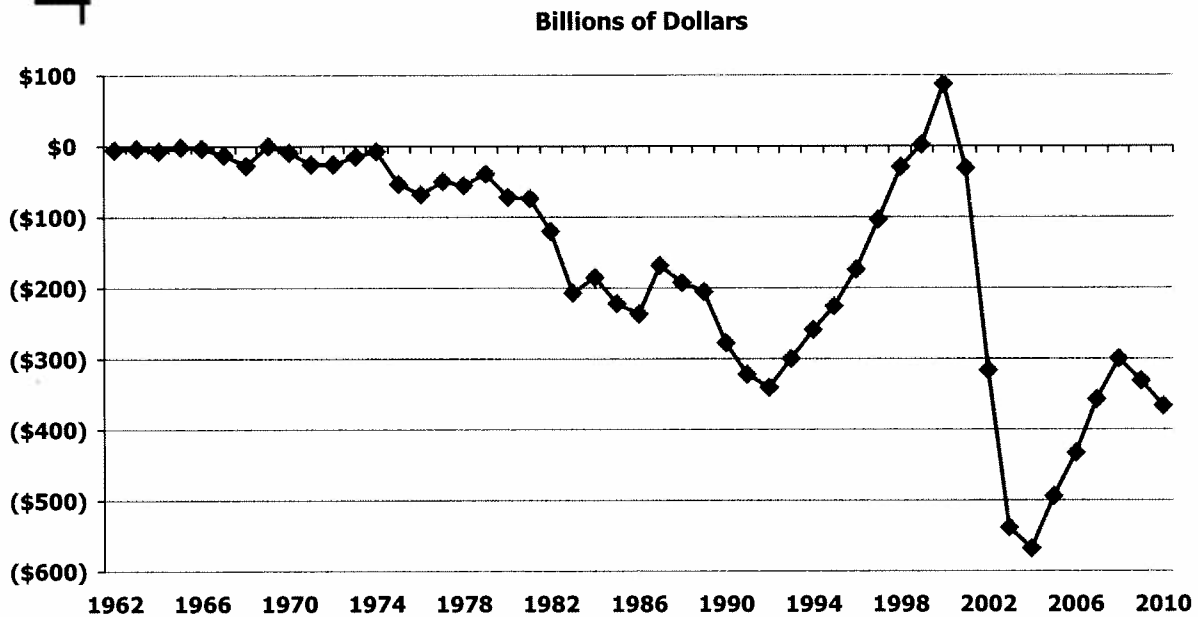
Constitutional Revenue Limit



Revenue limit:

- ◆ Calculation measures size of state government piece of the state economy
- ◆ State government share down \$5 billion in 2006

Federal On-Budget Deficit



Note: 2007 through 2010 are projections

Source: Congressional Budget Office, Office of Management and Budget

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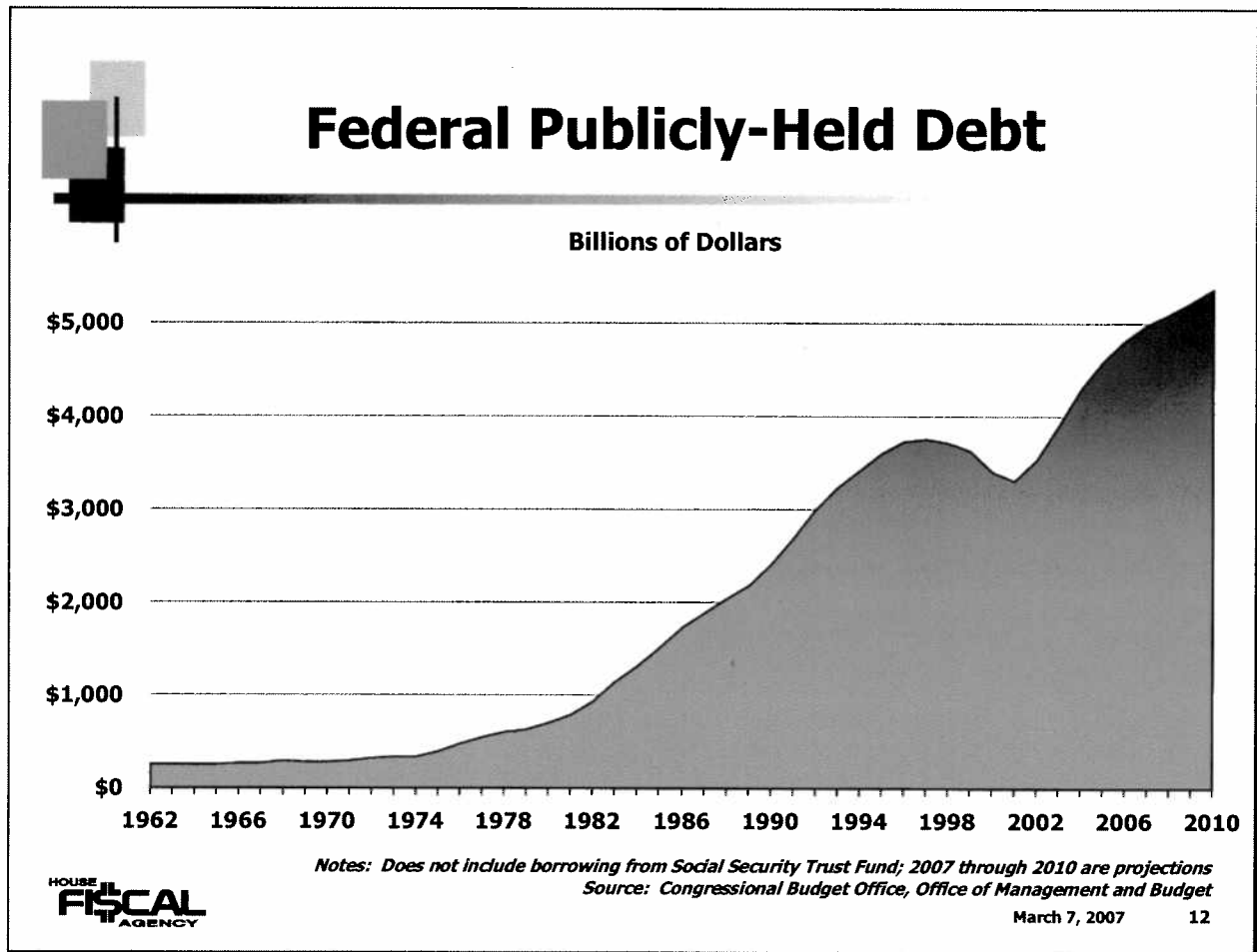
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National economy stimulated by:

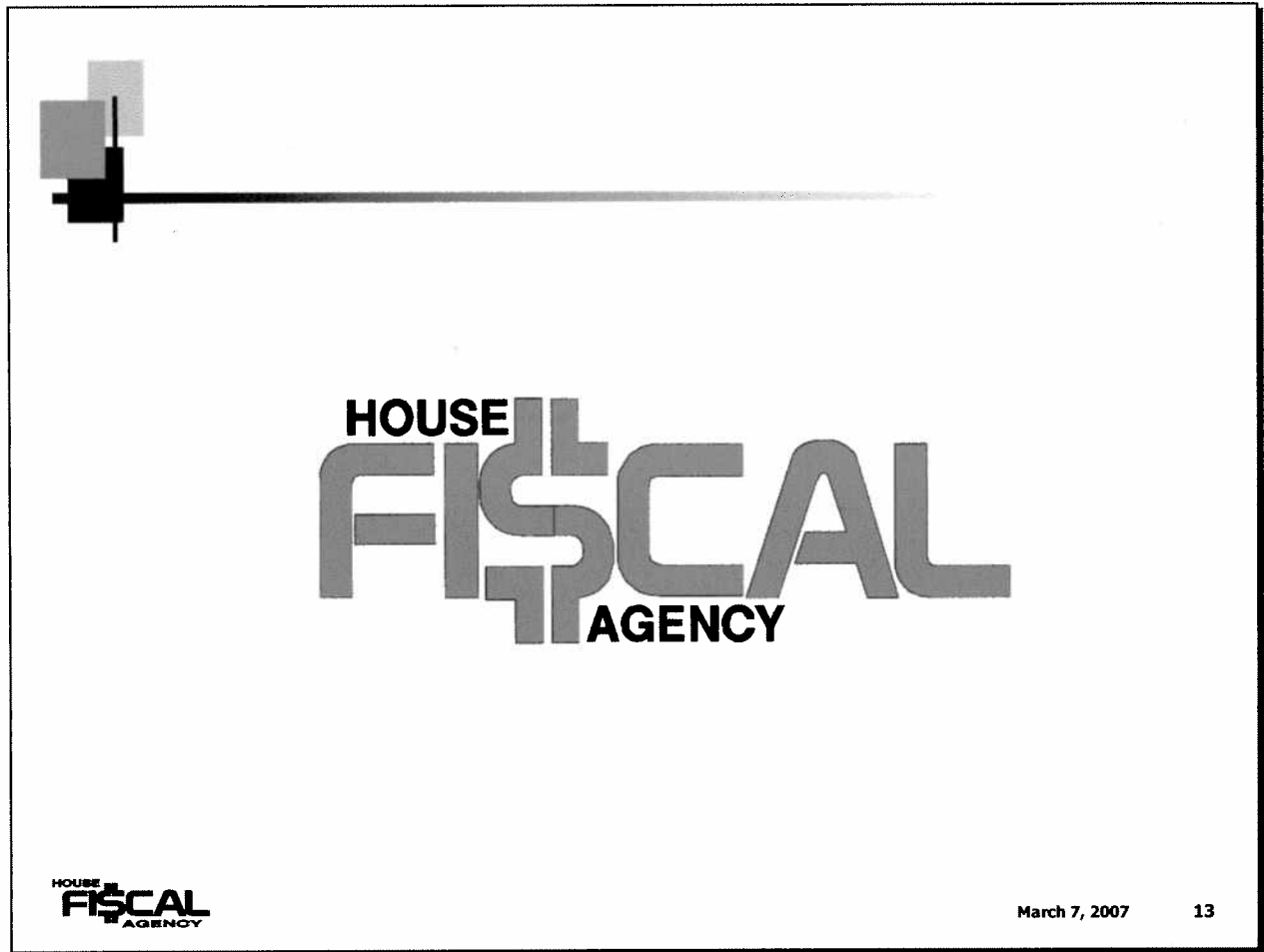
- ◆ Federal tax cuts
- ◆ Federal government spending

Deficit spending increases:

- ◆ Demand for goods/services in private sector
- ◆ Demand for labor



Tax cuts + deficit spending leads to debt



Summary

"How much of an impact did state tax policy have on the strong job growth of the 1990s?"

Precise measure cannot be made, but there was some impact.

"How much impact is state tax policy likely to have on job growth as we move forward?"

Current state economic problems and lack of job growth have little to do with taxes.

Tax policy alone will not solve state's economic problems.

An advanced capitalist economy requires infrastructure, an educated workforce, public safety, a court system, a proper regulatory environment, and an appropriate social safety net to function—state government is instrumental to each one of these areas.